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AUDITOR
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Review of Selected Internal Controls January – December 2013

Clark County Auditor's Office
Report #13-04

December 20, 2013

Audit Services

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Results In Brief

Audit Services reviews the County's cash funds and/or receipting functions to provide management with assurance that funds are being handled appropriately and that documentation is being maintained according to County policy. Overall prior year's recommendations were addressed.

Over a three year period, Audit Services reviews all the cash and receipting funds within the County. We look at internal controls to help safe guard County assets, to help detect errors, and to prevent misuse of assets. During the current year, 31 of the 79 funds and/or functions, about 40 percent, were reviewed. In four of these reviews, we found well controlled and managed funds, and there were no findings or recommendations made.

We made 72 recommendations to strengthen controls in the remaining reviews for 27 departments and offices, fifteen of which had two or more recommendations. These recommendations address the following areas:

- Preventive controls such as
 - Funds reviewed by management;
 - Receipts cancelled to prevent reuse;
 - Written procedures developed
- Preventive and Detective controls such as
 - Funds Reconciled and replenished according to *Budgeting, Accounting, and Reporting System* (BARS);
 - Funds escheat to State of Washington.
 - Deposits made timely; and
- Process Improvements such as
 - Over/short account used for out of balance; and
 - Custodial record updated with Treasurer's Office;

The attached Exhibit A summarizes all internal control work over cash receipting performed by Audit Services and internal departments for calendar year 2013.

Please note there are two departments where reviews were performed more than once.

This report can be found on the Auditor's Office web page, under Internal Audit Services/Audit Reports, at www.clark.wa.gov/auditor/audit/aud_otherreports.html.

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Introduction

The design, implementation, and ongoing monitoring of internal controls are the responsibility of management within each department in the county. However, county ordinance 2.14.010 tasks internal audit with assisting management in the effective discharge of their duties. Internal control reviews performed by internal audit help fulfill this objective by providing management with assurance that their controls are appropriate and functioning correctly. These limited evaluations of internal controls are a service that does not constitute an audit under the Generally Accepted Government Auditing Standards (GAGAS).

Internal Control Reviews

During the course of these reviews we examine the control environment for cash funds and/or receipting functions. We look for preventive and detective controls, many of which are prescribed by the Budgeting, Accounting and Reporting system (BARS) manual, issued by the Washington State Auditor's Office (SAO). BARS also contain some key procedural, or process requirements in addition to the controls.

Some departments perform reviews of their own funds or receipting functions; if provided, we review this work and consider it in our risk analysis.

Based on those reviews completed in 2013 we share the following observations and recommendations. A summary of the funds can be found in the attached Exhibit A.

Internal Management Reviews

When department's perform reviews of their own cash funds independently from work performed by Audit Services and then share results, the risk related to fund use is greatly reduced although these same funds may also be reviewed by Audit Services during the year.

Setting Tone at the Top

In 2013, General Services reviewed their Court House and Public Service Center Change Machines and the Prosecuting Attorney's Office reviewed their checking account. These reviews contribute to the effectiveness of management's internal control environment. **We commend** General Services and the Prosecuting Attorney's Office for their diligence.

Results of Internal Control Reviews

Preventative Controls

The following control activities are considered preventive because they help management prevent fraud and theft from occurring. We made several recommendations in these categories.

Appropriate Review by Management

Active management involvement helps ensure staff compliance with policies and procedures. We made three recommendations for management to take a more proactive involvement in the review and management of funds and responsibilities. These recommendations were to follow established policies and procedures. Management needs to have more active oversight of the policies and procedures to help ensure that functions and job duties are being carried out as expected.

Secure Funds and Related Records

In three instances there were issues around securing funds and related records and assets. In one review we found unauthorized staff had access to an unlocked cash bag containing money. In another review the electronic records that indicate who accessed a safe were incomplete because the records were being overwritten and no backup was made. In one instance the ledger used to indicate the withdrawal and deposit of funds was written in pencil.

We recommended management make sure cash bags have operational locks and are only accessed by authorized personnel. **We recommended** procedures be established to require regular backups of electronic safe access and the records are periodically check for completeness. **We recommended** that ledgers used for withdrawals and deposits be written in pen helping prevent records from being altered.

Accounts Not Used

In two instances we noted petty cash accounts had not been used on a regular basis. In one instance the account had not been used for over three years. In the other instance the authorized amount of the fund is more than required. In the first instance **we recommended** the account be closed, however management decided to keep the account open for future use. In the second instance **we recommended** the fund balance be reduced to a level consistent with no more than two months disbursements.

Cancel Receipts to Prevent Reuse

In two instances there were receipts that were not signed by the custodian issuing the funds and recipient receiving the funds. In addition the receipts were not marked paid with the date paid. **We recommended** these receipts contain the signature of the custodian issuing the funds and recipient receiving the funds. The receipts need to be marked paid with a date to help prevent receipts from being reused.

Preventative and Detective Controls

Some controls are both preventive and detective in nature. These controls help management prevent or mitigate errors as well as prevent and detect attempts at theft or fraud.

Deposits¹

Making deposits in a timely manner is a preventive and detective control as well as a BARS requirement. In four instances we found departments were not making deposits in accordance with BARS² or established procedures.

- BARS require that money collected should be deposited once every twenty-four hours, unless the Treasurer grants an exception. Generally, deposits are to be made within one business day.
- Additionally, deposits are to be made “intact” so that the composition of check and cash received matches the mode of payment listed on the deposit slip and related receipt forms.

In four instances deposits were not made in a timely manner or there was not a waiver from the Treasurer’s Office allowing deposits to be made later than 24 hours after receipt. **We recommended** that money be deposited in a timely manner, funds deposited intact (as received) and deposit slips be initialed or signed by the preparer. Departments are required to obtain a waiver from the Treasurer’s Office to make deposits on other than a daily basis.

Reconciling and Replenishing Funds According to BARS

In three instances departments did not replenish their petty cash funds according to BARS. In one situation the petty cash fund was not reconciled for three years which also means the fund was not replenished at year end for at least two years. **We recommended** the staff replenish the petty cash funds on a regular basis and at year end to expense costs in the proper accounting period. If the custodian of the fund does not see the need to replenish the fund on a regular basis, then maybe the fund should be reduced or closed.

Process Improvements

In addition to specific internal or management controls, there are processes that can be strengthened to improve the control environment. The following processes were found to have weaknesses that could be improved.

Account Over / Short

When a fund is over or short its authorized amount, that difference should be charged to an over/short account. This would bring the fund to its authorized level. During the current year, there were two change funds over and two funds short their authorized balance. The two overages were identified by

¹ Deposits are to be made in a timely manner, in accordance with BARS.

² BARS, vol. 1, part 3, chapter 2, page 4; and RCW 43.09.240.

department management. **We recommended** that the over/short account be charged every time a fund is out of balance unless there is an established policy which allows for a delay in charging the account.

Updating Custodial Records

In one instance we found the custodian records for inventory had not been reconciled against spreadsheets used for the disposal of assets. **We recommended** the tracking data base be reconciled against the disposal spreadsheet on a monthly basis to more accurately know the assets disposed.

Other Recommendations

Based on work conducted, there were other recommendations provided to managers.

High Risk

In one department we found four high risk instances. The areas covered are high cost inventory and equipment. **We recommended** management adhere to policy and guidelines surrounding the safeguard and handling of high value inventory and equipment.

In another department we found two high risk instances. One instance pertained to the inappropriate disposal of assets and the other instance is the inadequate documentation of assets to be disposed. **We recommended** the halt of all asset disposals until assets are resolved by serial number and inventory records are corrected. **We also recommended** the asset tracking data base be reconciled against the asset disposal spreadsheet.

Medium Risk

Overall we found four departments had a total of eight medium risk issues. One department had four issues, another department had two issues and the remaining two departments had one issue each. The issues are as follows:

- Checking account not reconciled for over 8 months.
- Staff apparently swapping out potentially collectable coins.
- Petty cash amounts not correct on sign out sheets.
- Staff did not require two signatures for assets received in trust.
- Extraneous items in safe where county funds are stored.
- Staff uses insider information to potentially benefit on assets sold.
- Selling of assets at fixed price rather than competitive auction price.
- Cashiers' using multiple cash draws for receipting.

We recommended the following:

- Checking accounts should be reconciled monthly.
- Staff deposits exact currency receipted to avoid appearance of impropriety.
- Remind staff to enter on the petty cash out slips the exact monies provided.
- Reinforce with staff the policy of requiring two signatures for receiving assets in trust.

- Reinforce with staff that no extraneous items should be in safe with county funds.
- Reinforce that staff should not act on insider information when selling county assets.
- Reinforce with staff that assets should be sold in an auction environment to maximize revenue.
- Cashiers should use one cash draw for receipting to minimize potential errors and efficient balancing.

Low Risk

Overall we found five departments had a total of thirteen low risk issues. One department has seven issues, another department has three issues and the remaining three departments have 1 issue each. The issues are as follows:

- Entries for the issue of petty cash written in pencil.
- Pre-numbered petty cash sign out sheets not recorded in order.
- Electronic box used to secure keys inoperable, also no procedures and training.
- Assets taken in trust not secured before storage.
- Indication for assets storage incorrect.
- Asset tags do not provide asset value.
- Checks issued out of numeric sequence.
- Checking account replenished before checks are cashed.
- Incomplete reconciliation report prepared each month.
- Reconciliation report not initialed indicating preparer.
- No informational signage on counters for citizens.
- Public does not sign for assets purchased or received.
- No written procedures for service provided.

We recommended the following:

- All entries for the issuance of petty cash be written in pen.
- Reinforce with staff pre-numbered petty cash slips be recorded in numeric sequence.
- Prepare written procedures for the use of the electronic key storage box and then train authorized staff the proper use of the storage box.
- Reinforce with staff the importance of securing assets held in trust.
- Reinforce the proper storage of assets so they can be located in the future.
- Reinforce with staff the need to issue checks in strict numeric order.
- Reinforce with staff that checking accounts are only replenished when checks are cashed.
- Reinforce with staff when using Quicken for reconciliation, the complete report should be printed and kept.
- Reinforce with staff each reconciliation report be signed and dated indicating the preparer.
- Management needs to provide citizens with expectations for receipting or tendering money.
- Reinforce with staff that citizen's signatures are required when receiving county assets.
- Staff needs written procedures for providing service to the public.

We appreciate the assistance of County staff and management in the performance of our internal control review work and thank them for responding positively to recommendations for improvement.

Appendix A: Objectives, Scope, and Methodology

Our work with petty cash funds, change funds, checking accounts, receipting functions and cash equivalents includes reviewing internal controls surrounding the function, balancing cash or checking accounts to supporting records, and performing a limited review of those controls associated with the processing and depositing of payments received.

More specifically, our review work focuses on determining that:

- all funds are properly authorized and at their approved amounts,
- procedures and practices are in place to ensure funds are properly safeguarded and accounted for, and
- Transactions are routinely approved and records are maintained which adequately support the administration and activity of the fund.

Reviews Based on Risk Analysis

In accordance with our biennial work plan, approved by the Audit Oversight Committee, Audit Services plans for and conducts internal control reviews of selected funds and cash receipting functions. In selecting funds for review, we consider:

- the date of the last review;
- findings from the last review;
- financial exposure (amount);
- type of fund or account;
- management oversight of the fund; and the
- fund status (e.g. new).

These factors plus any other information related to department operations and/or concerns expressed by management or external auditors, allow us to determine where to concentrate our efforts. In some instances, department managers are proactively reviewing their own cash receipting functions and sharing their results with Audit Services.

Our work consists of an unannounced on-site visit to the department, review of written department procedures (if available), observation of the cashing function and transactions, completion of an internal control checklist, and reconciliation of the cash to the records at the point in time of our review. We provide a summary of our results in a memorandum to the department manager.

In some cases we judgmentally sample transactions for review to determine if procedures are being followed. More extensive reviews may be performed in cases of loss or suspected loss.

County Funds

In 2013, Clark County and its closely affiliated agencies had a total of: 17 petty cash funds; 28 change funds; 13 checking accounts; eight pre-paid voucher or gift certificate operations; and 13 other areas responsible for receipting payments. Employees located in various facilities throughout the County manage these 79 areas.

The table below provides a summary of the types of funds within the County and their current authorized balances. In some instances the full authorized amount is not held by the fund.

Funds in Clark County		
<i>Type</i>	<i>Number</i>	<i>Current Authorized Balance</i>
Checking Accounts	13	\$118,500
Cash Receipting Functions	13	N/A
Change Funds	28	\$119,395
Vouchers (pre-paid certificates)	8	N/A
Petty Cash Funds	17	\$22,750
Total	79	\$260,645

Table 1: Funds by Type, 2013

The total number of county funds has remained the same at 79 as of the writing of this report. The individual number within the fund types has also remained unchanged. The total dollar value of all accounts has changed with the checking account category increasing by \$1,000. The total for all funds as of December 2013 is \$260,645.

Exhibit A: Internal Control Review Fund Summary

2013 Internal Control Reviews				Low Risk Issues						Medium Risk Issues					High Risk Issues					
Fund Name	Authorized Balance*	Total Recommendations	Account not used; close account	Cancel Receipts to Prevent Reuse	Excess funds; reduce balance	Issue sequential receipts	Other: low risk	Review Sequence of Issued Receipts	Review Voided Transactions	Account over/short	Develop Written Procedures	Make Deposits Timely	Need to escheat funds to State	Other: medium risk	Reconcile & Replenish Fund	Management Review	Other: high risk	Secure Fund and/or Related Records	Separate Key Duties	Update custodial record
Drug Task Force - Drug Buy Fund	\$ 15,000	14		1	1		2	2						1	1	1	4	1		
Information Systems - Surplus Sales	\$ -	12			1	1	1			1		1		2	1		2		1	1
Clerk - Collections Unit Change Fund	\$ 500	3				1								1					1	
Community Services - Receipts	\$ -	3						1	1		1									
Juvenile Court - Checking	\$ 5,000	3					3													
Parks - Downtown Receipts	\$ -	3					1				1							1		
Public Works - Ops Veh Registration	\$ 1,000	3			1					1		1								
Sheriff - Evidence	\$ -	3					2					1								
Sheriff - Inmate Trust Fund	\$ -	3					1							2						
Sheriff - Work Release	\$ -	3					1					1						1		
Clark County Fair	\$ -	2														2				
Public Works - ER&R	\$ 200	2			1										1					
Sheriff - Bail And Fines	\$ -	2					1							1						
Superior Court - Administration	\$ -	2									1								1	
Treasurer - Vault and Change Funds	\$ 10,000	2					1							1						
Auditor - Advance Travel	\$ 20,000	1							1											
District Court Corrections - Bus Pass/Tickets	\$ -	1				1														
General Services - Change Machine Courthouse**	\$ 250	1								1										
General Services - Change Machine in PSC**	\$ 250	1								1										
Prosecuting Attorney - NSF Diversion	\$ -	1											1							
Public Health - Environmental Change Fund	\$ 600	1									1									
Public Health - Prepaid cards	\$ -	1							1											
Public Health - Vital Records Change Fund	\$ 740	1									1									
Public Works - Roads - 78th Street	\$ 250	1			1															
Public Works - Roads - Admin	\$ 250	1		1																
Public Works - Roads Permits	\$ 200	1	1																	
Sheriff - MCU Informant Fund	\$ 3,000	1	1																	
District Court - Camas	\$ 250	0																		
District Court - Downtown	\$ 650	0																		
District Court Corrections - Mabry	\$ 600	0																		
Prosecuting Attorney - Petty Cash	\$ 2,000	0																		
Sub-totals			2	2	5	3	13	3	3	4	5	4	1	8	3	3	6	3	3	1
Totals	31	\$ 60,740	72			31						25					16			

* Only petty cash, change funds, and certain checking accounts have authorized balances

** Review performed by department management